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FOR NEA/ARP AND EB, TREASURY FOR DEPSEC KIMMITT

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TAGS: [ECON](#) [KU](#) [PREL](#)  
SUBJECT: SCENESETTER FOR TREASURY DEPUTY SECRETARY  
KIMMITT'S VISIT TO KUWAIT

Classified By: CDA Alan Misenheimer for reasons 1.4 (b) and (d)

¶1. (C) Deputy Secretary Kimmitt, we look forward to your December 2-3 visit to Kuwait. We have scheduled a dinner meeting with the Amir's Economic Advisor Dr. Yousef Al-Ebraheem. A former Finance Minister and Chairman of the Kuwait Investment Authority, the U.S.-educated Dr. Al-Ebraheem is a trusted advisor of the Amir on the full range of economic issues and is an excellent and discreet contact of the embassy's going back many years. Your meeting with him presents an opportunity to discuss Sovereign Wealth Fund (SWF) best practices and Kuwaiti investment in the U.S., Iran, GOK support for Iraq, terrorism finance issues, and GCC monetary policy.

Government-Parliament Tensions  
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¶2. (C) On October 28, the Kuwaiti Government formed a new cabinet. This major cabinet shuffle comes in the wake of growing threats from opposition MPs to formally question ("grill") several ministers. Seven ministers, including Foreign Minister Shaykh Dr. Mohammad Al Sabah and Prime Minister Shaykh Nasser Mohammad Al Sabah, were retained with no change in their portfolios. This is the fourth cabinet formation since the Amir formally took over leadership of the country in January 2006.

¶3. (C) The changes are an attempt on the Amir's part to end the political gridlock in the country resulting from the hostile and dysfunctional state of relations between the Government and the parliament. Prospective grillings have led to rampant rumors of the Amir dissolving Parliament for the second year in a row. A formal grilling threat had already been filed against former Finance Minister Bader Al-Humaidhi, who was rotated to the Oil Ministry and was ultimately forced to resign from the cabinet after only eight days in his new position. This resignation should help to reduce some of tension between the Government and Parliament in the short term, but the root sources of contention between the two sides remain. While some key portfolios for the USG have changed, such as Finance, Oil, and Social Affairs and Labor (key player on Islamic charity oversight and trafficking in persons), we do not foresee any changes in Kuwait foreign policy.

¶4. (C) The new Finance Minister, Mustafa Jassem Mohammad Al-Shimali most recently worked in investment in the private sector, but previously held the office of Assistant Under Secretary Economic Affairs and Acting Under Secretary of

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Finance from January 2005 until December 2006. Al-Shimali has a strong technical background in the fields of management, business and commerce in both the private and

government sectors. We regret that the Finance Minister will out of Kuwait during your visit; he will accompany the Amir to the GCC Summit in Doha.

#### GOK/KIA/CBK attitudes towards SWF best practices

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15. (C) Though still somewhat skeptical, the Kuwaitis are willing to engage in further dialogue on SWF best practices, drawing on previous discussions this fall with Treasury U/S McCormick and DAS Saeed. The KIA Managing Director and the now former Finance Minister initially seemed to offer the most resistance. We do not know to what extent the new Finance Minister has been briefed on the subject, or whether he has taken a position. As a former Assistant Under Secretary and Acting Under Secretary of Finance until

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December 2006, Al-Shimali should be familiar with KIA's operations, investment strategy, and asset allocations. KIA Managing Director Al-Saad expressed considerable skepticism this fall about the IMF SWF initiative, saying there is no clear consensus among the G-7 on what the concerns are. He suggested taking a bilateral approach based on reciprocity. He also noted that SWFs do not cause instability, pointing out that they are focused on long-term returns, which is why they were not concerned about the sub-prime market fallout. Al-Saad also argued that U.S. concerns are being driven by China, and German concerns by Russia.

16. (C) Former Finance Minister Al-Humaidhi said it remained unclear to the GOK and the GCC what the IMF's intentions are concerning SWFs and best practices. He said he was not convinced the U.S. had thought through the steps for developing best practices, and he did not want to take any action until he had clearer guidance on how to proceed.

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Central Bank Governor Shaykh Salem Al Sabah was more positive about working with the IMF to create a set of SWF best practices. He said that he is open to further dialogue on the subject but is keen to know exactly what is on the table.

#### Regional Issues: Iran and Iraq

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17. (C) Concerns about Iran remain at the top of the Kuwaiti security agenda and will likely be a key focus of the GCC summit in Doha on December 3-4. The GOK has supported the GCC statement that Iran has a right to peaceful nuclear power as well as the GCC initiative to develop its own civil nuclear power program. However, the GOK has publicly expressed environmental and safety concerns over the development of the Bushehr reactor, which is located less than 150 miles from Kuwait's border. The former Minister of Interior (now Minister of Defense) has publicly stated on more than one occasion that Kuwait will not allow the use of its territory to launch a military strike against Tehran.

18. (C) Iraq President Talabani visited Kuwait November 14-17 to discuss prospects for opening an embassy in Baghdad and a consulate in Basra, forgiveness of Iraqi sovereign debt, reduction of UN Compensation Commission payments, disbursement of Kuwait's grant of USD 60 million for humanitarian aid, resolution of border demarcation issues, and bilateral trade and investment. Iraq and Kuwait signed a memorandum of understanding for Iraq reconstruction. President Talabani briefed the Kuwait Chamber of Commerce and Industry (KCCI) on the security situation across Iraq and reported that there were promising investments opportunities, especially in the north. The KCCI encouraged trade exchanges and suggested that Iraq establish a free trade zone.

¶9. (C) Ambassador Crocker visited Kuwait October 28-29 to deliver the message that (1) security progress in Iraq has opened up political opportunities; (2) Kuwait should send an ambassador to Baghdad to prevent the highly active Iranian Ambassador from having the diplomatic field to himself; (the Iranians are active in Iraq, seeking influence and advancing their interests, but the Arabs have been absent); and (3) Kuwait and other Arab States must look beyond their misgivings about Maliki and engage to contribute to the development of a strong, viable Iraqi government.

¶10. (C) Since your visit a year ago, there has been scant progress on efforts to lift the suspension of Iraq from the Arab Fund over outstanding arrears. The GOI has not engaged seriously with the Fund to establish a repayment scheme. (Since the summer, there have been no further contacts between the Arab Fund and the Iraqi leadership on this issue that we are aware of.)

#### Terrorism Finance

¶11. (C) The GOK continues to say it is preparing new legislation to criminalize terrorist financing. The revised law would create an independent Financial Intelligence Unit (FIU) and would include a provision for mandatory inbound and outbound cash declarations for amounts exceeding 3,000KD (USD 10,380). Securing FIU membership in the Egmont Group and becoming a signatory to the UN International Convention for the Suppression of the Financing of Terrorism would enhance the credibility and effectiveness of GOK terror finance efforts.

¶12. (S/NF) There has been some improvement in the GOK's regulation of the domestic collection activities of Kuwaiti charities; but we remain concerned about the activities of overseas branches of some Kuwaiti charities especially the Revival of Islamic Heritage Society (RIHS). Despite sustained USG engagement, and the exchange of non-papers detailing RIHS's support of terrorist/insurgent operations, the GOK continues to maintain there is insufficient evidence to justify curtailing RIHS activities, let alone to support a UNSCR 1267 designation of RIHS. Part of this reluctance clearly stems from the GOK's fear of antagonizing Kuwaiti Islamists.

¶13. (C/NF) The USG continues to provide technical assistance and training to the GOK on money laundering and the monitoring of illicit funds. Post is working with Treasury and Justice to organize an FIU workshop for officials from Kuwait's Central Bank and Justice Ministry to be held in the first quarter of 2008. On November 12-14, Treasury Resident Enforcement Advisor Joe Parker visited Kuwait to meet with

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GOK officials and assist them in planning of an AML/CFT conference. During Parker's visit, the GOK expressed a willingness to accept technical assistance and agreed to co-organize an FIU implementation seminar in early 2008. On December 2-3, under the patronage of Central Bank of Kuwait and the National Committee for AML & CFT, Kuwait will host an Anti-Money Laundering and Combating Financing of Terrorism Regional Conference for AML/CFT professionals from Kuwait and around the region.

#### GCC Monetary Union/Dollar De-peg

¶14. (C) In May 2007, Kuwait's Central Bank dropped the dollar peg to gain more monetary policy flexibility and tackle inflation. The dinar has seen an appreciation of approximately five per cent against the dollar since 19 May, when it was de-pegged. Regarding the implications of de-pegging on the prospects for GCC monetary union, the Kuwaitis have indicated that the adoption of a single currency was still desirable but not likely to happen by the

2010 target. GOK officials remain committed to the exchange rate basket. Central Bank Deputy Governor Dr. Nabeel Al-Mannae said recently that, although all the GCC member states are convinced that a monetary union is better in the long-term, monetary integration by 2010 was an overly ambitious goal. He would not venture a guess as to when GCC monetary union might become possible --a chimerical goal to which GCC states pay devout lip service--.

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